

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement (the "Agreement"), dated as of July 8, 2004, is by and among NorthWestern Corporation ("NorthWestern," the "Parent Company," or the "Debtor"), the Montana Department of Public Service Regulation, Montana Public Service Commission ("MPSC"), and the Montana Consumer Counsel ("MCC"). The Debtor, the MPSC and the MCC collectively are the "Parties" and, individually, a "Party."

RECITALS

- A. On September 14, 2003 (the "Petition Date"), the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Reform Act of 1978, codified in title 11 of the United States Code, 11 U.S.C. §§ 101-1330 (as amended, the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware styled as Chapter 11 Case No. 03-12872 (CGC). The Debtor continues to operate its business and manage its properties as a debtor-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.
- B. The Debtor is a publicly-traded Delaware corporation incorporated in 1923. NorthWestern and its direct and indirect energy subsidiaries form one of the largest providers of electricity and natural gas in the upper Midwest and Northwest, serving approximately 608,000 customers throughout Montana, South Dakota and Nebraska.
- C. The MPSC is the primary regulatory agency for the Debtor's retail utility business in gas and electricity transmission and distribution in Montana. The MPSC has the statutory obligation to regulate public utilities as set forth in Title 69, Mont. Code Ann.
- D. The MCC is a constitutionally-established office in Montana, charged with representing consumer interests.
- E. On August 13, 2003, the MCC petitioned the MPSC to initiate a financial investigation (the "Financial Investigation") into NorthWestern Energy, a division of the Debtor, to determine if the Debtor's historic financial difficulties would affect Montana ratepayers and to establish, if and where appropriate, protection for Montana retail consumers from further harm or risk. To that end, the MCC suggested through the Financial Investigation that the MPSC impose upon the Debtor, by MPSC order, a range of regulatory and structural provisions, including but not limited to: (1) establishing a utility-only subsidiary upon the Debtor's emergence from bankruptcy; (2) stricter regulation of the disposition of its Montana utility properties; (3) segregating utility finances from non-utility affiliate risks and operations; (4) a prohibition on inter-corporate relationships between the utility and non-utility entities; (5) restrictions on new

financing involving the Debtor's Montana utility properties; (6) further restriction of the cash management practices of the utility; (7) independent examination and verification of the Debtor's accounting systems; and, (8) the implementation of operation and maintenance service quality standards. In addition, the MCC has specifically requested that the MPSC order the Debtor to submit a retail rate case within a specified period following the Debtor's emergence from bankruptcy to provide Montana retail consumers with any rate reductions to which they may be entitled under Montana utility law as set forth in Title 69, Mont. Code Ann.

- F. The Debtor, while cooperating in providing information and documentation to the MCC in the Financial Investigation, has asserted that following the initiation of the Chapter 11 Case the Financial Investigation was stayed by operation of the automatic stay under the Bankruptcy Code. Additionally, the Debtor opposed the requested relief sought by the MCC in the Financial Investigation and asserted that the MPSC did not have statutory or other authority to enter the relief requested by the MCC. Further, the Debtor has always asserted that it is neither over charging Montana retail customers nor over earning with respect to its Montana operations such that there should be any rate reduction with respect to its base rates charged to Montana consumers.
- G. Both the MPSC and the MCC entered appearances in the Chapter 11 Case and have participated in it as parties-in-interest.
- H. On March 11, 2004, pursuant to Section 1125 of the Bankruptcy Code, the Debtor filed its initial disclosure statement (the "Disclosure Statement") and proposed plan of reorganization ("Plan"), which Disclosure Statement and Plan were amended by that Disclosure Statement and Plan dated as of May 17, 2004.
- I. On May 7, 2004, the Debtor filed in the Chapter 11 Case a Motion for an order enforcing the automatic stay (the "Stay Motion") asserting that the continuation of the Financial Investigation violated section 362 of the Bankruptcy Code, the automatic stay provision. The MPSC and MCC disagree that the Financial Investigation in any way violates the automatic stay and affirmatively allege, among other things, that the conduct of the Financial Investigation specifically and the MPSC's jurisdiction generally are consistent with the Bankruptcy Code.
- J. On May 12, 2004, the MCC filed an Objection to Debtor's Motion for an Order Approving Debtor's Proposed Disclosure Statement (the "MCC Objection"), asserting a series of deficiencies in the Disclosure Statement and outlining objections to the Debtor's Plan based in part on regulatory concerns raised in the Financial Investigation.

- K. On May 12, 2004, the MPSC filed an Objection to the Debtor's Disclosure Statement (the "MPSC Objection"), asserting a series of deficiencies in the Disclosure Statement and outlining objections to the Debtor's Plan based on jurisdictional and substantive concerns.
- L. The Debtor, the MPSC, and the MCC have engaged in continuing negotiations in connection with the Chapter 11 Case, the Financial Investigation, the Stay Motion, the MPSC Objection, and the MCC Objection, and each Party has evaluated the merits of the claims being made by the other.
- M. To avoid considerable expense, uncertainty and delay, the Debtor, on the one hand, and the MPSC and the MCC, on the other hand, desire to compromise and settle the disagreements between them, subject to:
(1) Bankruptcy Court approval of the Agreement; (2) at least a majority vote of the MPSC approving this Agreement; and (3) the MPSC's entry of a Consent Order that is mutually agreed upon between the Debtor and the MCC which will, among other things, resolve the Financial Investigation (except with respect to implementing the recommendations from the Transmission and Distribution Infrastructure Audit described in paragraph 4(d), below).
- N. Except as expressly provided in this Agreement, the Parties intend neither to expand nor to limit the jurisdiction of the MPSC under state law. The Parties do not intend this Agreement to establish a precedent that can be used by any Party to bind any other Party in any subsequent proceeding, except a proceeding arising out of or directly related to this Agreement or the Consent Order.

AGREEMENTS

In consideration of the foregoing Recitals and the mutual covenants contained herein, which the parties acknowledge are good and sufficient consideration, the Parties agree as follows:

- 1. Recitals. The Recitals are an integral part of this Agreement and are incorporated by reference.
- 2. Definitions. In addition to terms otherwise defined in this Agreement, the following definitions shall apply:
 - (a) "Agreement" means this Stipulation and Settlement Agreement binding the Debtor, the MPSC, and the MCC.
 - (b) "Agreement in Principle" means the agreement dated May 14, 2004 by and among the Debtor, the MPSC, and the MCC initially

outlining the terms of this Agreement and approved by the MPSC at a public meeting on May 14, 2004.

- (c) “Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as codified in Title 11 of the United States Code, 11 U.S.C. §§ 101-1330, in effect on the Petition Date, together with all subsequent amendments and modifications.
- (d) “Bankruptcy Court” means The United States District Court for the District of Delaware having jurisdiction and, to the extent of any reference under 28 U.S.C. § 157, the bankruptcy unit of such District Court under 28 U.S.C. § 151 over the Chapter 11 Case.
- (e) “Bankruptcy Estate” means the estate created in the Chapter 11 Case pursuant to Section 541 of the Bankruptcy Code.
- (f) “Business Day” means any day other than a Saturday, Sunday or a day that, in either Wilmington, Delaware or in Sioux Falls, South Dakota, is a legal holiday or any day designated in Bankruptcy Rule 9006(a) as a “legal holiday.”
- (g) “Chapter 11 Case” or “Bankruptcy Case” means the Debtor’s case under Chapter 11 of the Bankruptcy Code administered in the Bankruptcy Court.
- (h) “Confirmation Hearing” means the hearing to be held by the Bankruptcy Court to consider confirmation of the Plan pursuant to section 1129 of the Bankruptcy Code, as such hearing may be adjourned or continued from time to time.
- (i) “Confirmation Date” means the date on which the Bankruptcy Court enters the Confirmation Order.
- (j) “Confirmation Order” means the order of the Bankruptcy Court, to be entered after notice and a hearing, confirming the Plan pursuant to the provisions of the Bankruptcy Code.
- (k) “Consent Order” means the mutually agreed (between the Debtor and the MCC) to Consent Order, the form of which is attached to this Agreement as Exhibit A, proposed and submitted by the MCC and the Debtor resolving the Financial Investigation (except with respect to implementing the recommendations from the Transmission and Distribution Infrastructure Audit described in paragraph 4(d), below) requested to be approved and entered by the MPSC after Notice and a Hearing pursuant to Title 69, Mont. Code Ann.

- (l) “Disclosure Statement” means the First Amended Disclosure Statement Pursuant to Section 1125 of the Bankruptcy Code for the First Amended Plan of Reorganization of the Debtor, as such Disclosure Statement was amended and approved in its final form by the Bankruptcy Court by Order dated May 26, 2004, and all related exhibits and schedules.
- (m) “Effective Date” means that Business Day on or after the Confirmation Date specified by the Plan on which all conditions precedent to the occurrence of the Effective Date set forth in the Disclosure Statement or Section 11.2 of the Plan have been satisfied or waived pursuant to Section 11.3 of the Plan.
- (n) “Environmental Liabilities Support Agreement” means that certain Environmental Liabilities Support Agreement dated as of November 12, 2002 by and between NorthWestern Corporation and NorthWestern Energy, L.L.C. (n/k/a Clark Fork and Blackfoot, LLC), as the same may be amended and modified from time to time.
- (o) “Financial Investigation” means MPSC Docket No. D2003.8.109, the investigatory proceeding before the MPSC commenced by the MCC’s petition on August 13, 2003, prior to the Petition Date, to examine the financial affairs of NorthWestern Energy, a division of the Debtor.
- (p) “Independent Director” means a director deemed to be "independent" as determined by the published rules and regulations, as the same may be amended and modified from time to time, established by the New York Stock Exchange; provided, however, that an "Independent Director," at a minimum, shall be a director who has no material relationship with the Debtor (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Debtor):
 - (i) A director who is an employee, or whose immediate family member is an executive officer, of the Debtor is not “independent” until three years after the end of such employment relationship.
 - (ii) A director who receives, or whose immediate family member receives, more than one hundred thousand dollars (\$100,000) per year in direct compensation from the Debtor, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not “independent” until three years after he or she

ceases to receive more than one hundred thousand dollars (\$100,000) per year in such compensation.

- (iii) A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Debtor is not “independent” until three years after the end of the affiliation or the employment or auditing relationship.
- (iv) A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Debtor’s present executives serve on that company’s compensation committee is not “independent” until three years after the end of such service or the employment relationship.
- (v) A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Debtor for property or services in an amount which, in any single fiscal year, exceeds the greater of one million dollars (\$1,000,000), or two percent (2%) of such other company’s consolidated gross revenues, is not “independent” until three years after falling below such threshold.
- (q) “Infrastructure Audit” shall have the meaning set forth in paragraph 4(d)(i) of this Agreement.
- (r) “Limited Investment Basket Cap(s)” shall have the meaning set forth in paragraph 4(b)(v) of this Agreement.
- (s) “New Common Stock” means the shares of authorized common stock of the Reorganized Debtor issued pursuant to the Plan and as may be approved by the MPSC pursuant to sections 69-3-501 through 507, M.C.A., and in accordance with the terms of this Agreement.
- (t) “New Incentive Plan” means the incentive plan to be established prior to the Confirmation Hearing and the entry of the Consent Order.
- (u) “Notice and a Hearing” means that notice and those public hearing requirements binding on the MPSC under Title 69, Mont. Code Ann. and the Montana Administrative Procedure Act.
- (v) “Operating Support Agreement” means that certain Maintenance and Operating Costs Support Agreement dated as of November 15, 2002

by and between NorthWestern Corporation and NorthWestern Energy, L.L.C. (n/k/a Clark Fork and Blackfoot LLC), as the same may be amended and modified from time to time.

- (w) "Plan" means the Debtor's First Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated as of May 17, 2004, and all related exhibits and schedules, subject to notice, hearing and confirmation by the Bankruptcy Court.
 - (x) "Post-Downgrade Limited Investment Basket Cap" has the meaning set forth in paragraph 4(b)(vi) of this Agreement.
 - (y) "Pre-Downgrade Limited Investment Basket Cap" has the meaning set forth in paragraph 4(b)(vi) of this Agreement.
 - (z) "Public Utility" has the meaning provided in Mont. Code Ann. § 69-3-101(1).
 - (aa) "Reorganized Debtor" means the Debtor on and after the Effective Date.
 - (bb) "Reorganized Debtor Charter" means the certificate of incorporation and by-laws of the Reorganized Debtor.
3. Consent Order. The MCC and the Debtor shall stipulate to the entry of the Consent Order by the MPSC, the form of which is attached to this Agreement as Exhibit A, to be filed in the Financial Investigation and entered by the MPSC following notice and a public hearing pursuant to Title 69, Mont. Code Ann. The MPSC believes, in good faith, that at least a majority of the MPSC's five Commissioners will vote to approve this Agreement and the Consent Order.
4. NorthWestern Agreement. NorthWestern agrees, and consents to be bound by the Consent Order entered by the MPSC providing for, among other things, as follows:

Rate Review.

- (a) No later than September 30, 2006, based on a 2005 test year, NorthWestern shall file complete documents complying with the minimum electric and gas rate case filing standards provided in ARM 38.5.106 through 38.5.195, including any additional documentation required for interim electric and gas rate adjustments as provided in ARM 38.5.501 through 38.5.507, whether or not an interim adjustment is or has been sought. Following such filing, NorthWestern shall respond to all reasonable discovery and data requests: (i) in accordance with the requirements of ARM 38.2.3301 through 38.2.3305 and the Montana Rules of Civil Procedure as

thereby made applicable; and (ii) in accordance with any procedural schedule established by the MPSC in connection with such filing.

- (b) Structural and Financial Separation of Public Utility Assets, Facilities, and Operations from Risks of Non-Utility Ventures.

NorthWestern will be subject to the following regulatory controls to separate and insulate the Public Utility's assets, facilities, and operations from risks that may be associated with non-utility ventures in which NorthWestern is or may become engaged from time to time. These controls are commonly known as, and are referenced in the Parties' Agreement in Principle as, "ring fencing" measures -- consisting of structural measures, financial measures, and affiliate and inter-corporate measures.

Structural Measures.

- (i) NorthWestern shall structure and maintain the ownership and control of its Public Utility assets, facilities, and operations in the ultimate parent corporation (the "parent") of whatever corporate structure NorthWestern may adopt, now or hereafter, without the intervention of any direct or indirect ownership or control of such Public Utility assets, facilities, or operations by any subsidiary or affiliate.
- (ii) NorthWestern shall provide written notice to the MPSC and the MCC at least forty-five (45) days in advance of the earlier of an irrevocable commitment or undertaking on the part of NorthWestern to transfer, merge, sell, lease, encumber, or otherwise enter into any disposition transaction involving its Montana Public Utility assets or facilities having either a net book value or transaction value (whichever is greater), as reflected in NorthWestern's records in accordance with the Uniform System of Accounts (18 C.F.R. Part 101), of five million dollars (\$5,000,000) or more per transaction. The provision of such notice in accordance with this Agreement and the Consent Order shall not be deemed or construed to constitute an admission or acknowledgement by NorthWestern that the MPSC has jurisdiction over any such disposition under Montana law, and NorthWestern reserves the right to contend to the contrary in any forum or proceeding in which such issue may arise.

Financial Measures.

- (iii) After the date of entry of the MPSC's Consent Order, NorthWestern shall be subject to the following restrictions and requirements:
- (1) NorthWestern shall at all times hold all owned or operated Public Utility assets at the Parent Company, separate and segregated from the ownership, risks and operations of any subsidiaries and any affiliates that have or hold assets other than Public Utility assets. In addition, finances of any public utility owned or operated by NorthWestern shall at all times be held separate and segregated from the ownership, risks and operations of any subsidiaries and any affiliates that have or hold assets other than Public Utility assets.
 - (2) Debt at the Parent Company will consist only of public utility debt, whether secured or unsecured, and the proceeds of all such debt will be used solely to fund operations of the Parent Company's public utility business. This principle shall control in the event of any conflict between this paragraph and any other provision of this Agreement or the Consent Order.
 - (3) If Public Utility assets that are pledged or encumbered to secure debt are divested or "spun off," the debt must follow the assets and be divested or "spun off" to the same extent as the assets.
 - (4) If Public Utility assets financed by unsecured debt are divested or "spun off," then a proportionate share (to the same extent as the assets) of the debt also must be divested or "spun off."
 - (5) If any of the proceeds from unsecured debt are used for purposes other than Public Utility purposes, the debt likewise must follow the assets other than Public Utility assets and if such assets are divested or "spun off" then a proportionate share (to the same extent as the assets) of the debt must be divested or "spun off."
 - (6) Other than as allowed by the Limited Investment Basket Caps described below in subparagraph (v) the Parent Company will not extend credit to any of its subsidiaries or affiliates, will not pledge Public Utility assets as collateral for the use or benefit of any of its subsidiaries

or affiliates and will not guarantee any debt of any of its subsidiaries or affiliates.

- (7) All debt associated with assets other than public utility assets or activities will be held at or by the subsidiaries or affiliates and will be non-recourse to the Parent Company.
- (8) The Parent Company will take all measures necessary to ensure that it will have its own independent corporate credit rating.

Affiliate and Inter-Corporate Transactions.

- (iv) NorthWestern shall not provide loans, guarantees, advances, equity investments, or working capital to its subsidiaries or affiliates, except in accordance with the Limited Investment Basket described in subparagraph (v) below. Provided that the ratio of NorthWestern's consolidated total book equity to its consolidated total capitalization is at no time less than forty percent (40%), NorthWestern will be permitted to provide loans, guarantees, advances, equity investments, and working capital to its subsidiaries and affiliates in an aggregate amount (the Limited Investment Basket Caps) defined below. For the purposes of this forty percent (40%) calculation, the Debtor's consolidated book equity and consolidated total capitalization shall be as reported by NorthWestern in its quarterly and year-end financial statements filed with the Securities and Exchange Commission in SEC Forms 10-Q and 10-K, respectively. Such ratio shall be measured on a quarterly basis beginning with the first fiscal quarter ending after the Effective Date. As used herein "total capitalization" shall include NorthWestern's secured and unsecured debt, plus capital leases, plus consolidated book equity as presented in NorthWestern's published financial statements. The equity ratio calculation described above shall not be a basis for determining the equity component of NorthWestern's capital structure for Montana utility rate making purposes.
- (v) NorthWestern may, pursuant to the Consent Order, provide loans, guarantees, advances, equity investments, and working capital to its subsidiaries and affiliates only in amounts not to exceed the aggregate amounts set forth below, in accordance with the threshold credit ratings also set forth and in accordance with the Limited Investment Basket Caps. The Limited Investment Basket Cap amounts are inclusive of, and not in addition to, those amounts NorthWestern is committed to

provide as of the date of this Agreement: (1) in accordance with the Colstrip 4 leases and operating agreements; (2) as intercompany support for Clark Fork and Blackfoot, LLC, in connection with the Milltown Dam and the corresponding Environmental Liabilities Support Agreement and Operating Support Agreement ; (3) as reasonably required to preserve the present assets of Montana Megawatts I, LLC; and (4) for the unregulated South Dakota and Nebraska gas marketing operations of NorthWestern Services Corporation, provided, however, that if any of the aforementioned obligations (1) through (4) are eliminated or reduced, or if any of the aforementioned assets are sold or otherwise disposed of, the Limited Investment Basket Cap will be automatically reduced by an amount representing fifty percent (50%) of the average of the maximum balance outstanding during each of the preceding twelve (12) months, as the case may be, by NorthWestern with respect to the aforementioned obligations (1) through (4) which are eliminated or reduced, provided, however, that the Limited Investment Basket Caps shall not be reduced to less than forty-five million dollars (\$45,000,000) at all times. The aggregate amounts of the Limited Investment Basket Caps are defined as the following limits and the related corporate credit rating levels:

<u>Criterion</u>	<u>Limited Investment Basket Cap</u>
• Upon the Effective Date:	\$60 million
• During any such time that NorthWestern has credit ratings of at least BBB- (Standard & Poor's) and at least Baa3 (Moody's Investors Service):	\$75 million
• During any such time that NorthWestern has credit ratings of at least BBB (Standard & Poor's) and at least Baa2 (Moody's Investors Service):	\$90 million
• Upon attainment of credit ratings of at least BBB+ (Standard & Poor's) and at least Baa1 (Moody's Investors Service), but in no event sooner than forty-two (42) months after the Effective Date:	No limit

- (vi) If NorthWestern's corporate credit rating is downgraded by either Standard and Poor's or Moody's Investors Service such that NorthWestern no longer meets the criterion for the Limited Investment Basket Cap that was in effect immediately prior to the downgrade, as set forth in subparagraph (v) above (the

“Pre-Downgrade Limited Investment Basket Cap”), then, notwithstanding anything to the contrary in the Consent Order, the Limited Investment Basket Cap on the date of such downgrade automatically shall decrease to the Limited Investment Basket Cap that applies to NorthWestern’s credit ratings after such downgrade, as set forth in subparagraph (v) above (the “Post-Downgrade Limited Investment Basket Cap”), and NorthWestern shall proceed as expeditiously as possible to reduce the aggregate amount of any and all loans, guarantees, advances, equity investments, and working capital to its subsidiaries and affiliates to an amount no greater than the applicable Post-Downgrade Limited Investment Basket Cap. If the aggregate amount of any and all loans, guarantees, advances, equity investments, and working capital extended to its subsidiaries and affiliates exceeds the applicable Post-Downgrade Limited Investment Basket Cap on the date ninety (90) days subsequent to the effective date of the downgrade, NorthWestern shall implement whatever course(s) of action the MPSC deems necessary through, after Notice and a Hearing, an order, to decrease the aggregate amount of any and all loans, guarantees, advances, equity investments, and working capital to NorthWestern’s subsidiaries and affiliates to an amount no greater than the Post-Downgrade Limited Investment Basket Cap. Any such order shall be effective twenty (20) days after filing pursuant to 69-3-401, M.C.A., subject to NorthWestern’s right to petition the appropriate Montana state court pursuant to 69-3-403, M.C.A. for injunctive relief pending any judicial review.

- (vii) In the event that the ratio of NorthWestern’s consolidated book equity to its consolidated capitalization at any time falls below forty percent (40%), then, notwithstanding anything to the contrary in the Consent Order, the Limited Investment Basket Cap on that date automatically shall decrease to sixty million dollars (\$60,000,000) (or such reduced amount as is appropriate based on the elimination, reduction, or disposition of assets described in paragraph 4(b)(v), above) and NorthWestern shall proceed as expeditiously as possible to reduce the aggregate amount of any and all loans, guarantees, advances, equity investments, and working capital to its subsidiaries and affiliates to an amount no greater than sixty million dollars (\$60,000,000) (or such reduced amount as is appropriate based on the elimination, reduction, or disposition of assets described in paragraph 4(b)(v), above). If the aggregate amount of any and all loans, guarantees, advances, equity investments, and working capital extended to its subsidiaries and affiliates exceeds sixty million dollars

(\$60,000,000) (or such reduced amount as is appropriate based on the elimination, reduction, or disposition of assets described in paragraph 4(b)(v), above) on the date 90 days subsequent to the date on which the ratio of NorthWestern's consolidated book equity to its consolidated total capitalization falls below forty percent (40%), NorthWestern shall implement whatever course(s) of action the MPSC deems necessary and, after Notice and a Hearing, orders to decrease the aggregate amount of any and all loans, guarantees, advances, equity investments, and working capital to NorthWestern's subsidiaries and affiliates to an amount no greater than sixty million dollars (\$60,000,000) (or such reduced amount as is appropriate based on the elimination, reduction, or disposition of assets described in paragraph 4(b)(v), above). Any such order shall be effective twenty (20) days after filing pursuant to 69-3-401, M.C.A., subject to NorthWestern's right to petition the appropriate Montana state court pursuant to 69-3-403, M.C.A. for injunctive relief pending any judicial review.

(viii) NorthWestern shall not enter into any contract with a subsidiary or an affiliate of NorthWestern where any part of the costs of such contract are, or are expected or requested by NorthWestern to be, recovered through utility rates paid by Montana ratepayers, unless:

(1) NorthWestern first shall have made application to the MPSC upon full disclosure of all material facts for authorization to enter into such contract; and

(2) The MPSC, after Notice and a Hearing, shall have authorized NorthWestern to enter into such contract.

(ix) NorthWestern shall maintain separate books and accounting records for each Public Utility operating within its corporate structure and for each direct or indirect subsidiary or affiliate of NorthWestern.

(x) NorthWestern shall permit the MPSC to audit the books and records of its Public Utility operations and, in addition, those of each direct or indirect subsidiary and affiliate, and NorthWestern shall provide the MPSC and its staff full access to all such books and records upon reasonable notice.

(xi) NorthWestern shall provide, subject to SEC disclosure limitations (which, if invoked as grounds for non-reporting, shall be documented by reference to the applicable SEC rule or regulation and the basis for its application in the

circumstances), quarterly reports of all transactions between the parent and any subsidiary or affiliate.

- (xii) NorthWestern shall maintain Montana Universal Service Benefit funds collected by it in a separate and segregated interest-bearing bank account dedicated exclusively to the handling of such funds, and it shall account for such funds as trust funds as provided for under Montana law.

(c) Reporting and Disclosure Requirements.

- (i) NorthWestern shall provide to the MPSC staff a complete and detailed explanation of all accounting systems and practices in use by NorthWestern and its direct and indirect subsidiaries and affiliates, and it shall provide the MPSC and MCC with current copies of all accounting manuals and practices in use by NorthWestern and its direct and indirect subsidiaries and affiliates. To the extent that the accounting manuals and practices contain proprietary and commercially sensitive information that would qualify as a trade secret under Montana law, NorthWestern may apply to the MPSC pursuant to Mont. Code Ann. § 69-3-105 for a protective order using the processes and criteria outlined in *Great Falls Tribune v. Montana Public Service Commission*, 319 Mont. 38, ¶¶ 55-57, 82 P.3d 876 (2003), or applicable MPSC administrative rules.
- (ii) NorthWestern acknowledges and reaffirms its obligation to respond to reasonable requests by the MPSC, its staff, or the MCC, pursuant to Mont. Code Ann. §§ 69-3-102, 69-3-106, and 69-2-203, and shall respond to all such requests in a timely and complete manner.

(d) Transmission and Distribution Infrastructure Audit.

- (i) NorthWestern has engaged voluntarily Liberty Consulting (“Auditor”) to audit and make recommendations to NorthWestern concerning the state of NorthWestern’s utility transmission and distribution infrastructure within Montana (the “Infrastructure Audit”). NorthWestern shall:
 - (1) Within three (3) business days of receipt, submit the Auditor’s final report or reports containing the results and recommendations of the Infrastructure Audit to the MPSC;

- (2) Cause the Auditor to present the findings and recommendations of the Infrastructure Audit to the MPSC at a public meeting within fifteen (15) days of receipt by NorthWestern of the final report with respect to the Infrastructure Audit; provided, however, that on or before August 1, 2004, the Debtor shall submit a report (whether final or not) containing the results and recommendations of the Infrastructure Audit to the MPSC; and
 - (3) Coordinate and cooperate with the MPSC and the MCC to implement appropriate recommendations of the Infrastructure Audit.
- (ii) The Financial Investigation docket will remain open for the sole purpose of maintaining a procedural forum for the entry of any orders by the MPSC for the implementation of appropriate Infrastructure Audit recommendations agreed upon by the Parties.
- (iii) Notwithstanding paragraph 4(d)(ii), above, if the Parties cannot agree on the implementation of Infrastructure Audit recommendations, then the MPSC, either on its own motion or upon the petition of the MCC, may commence a new proceeding to compel the implementation of any Infrastructure Audit recommendation not agreed upon by the Parties. If any such motion or petition is filed, NorthWestern reserves all rights to oppose the implementation of any recommendation of the Infrastructure Audit not agreed upon by the Parties.
- (e) Corporate Governance and Management. As part of its Plan, the Debtor shall establish a new Board of Directors with at least every director but one an Independent Director. The Debtor will use its reasonable best efforts to attract and retain directors with utility energy expertise. The Debtor will provide the MPSC and the MCC, no less than fifteen (15) days prior to the Confirmation Hearing, notice of the identity of the Reorganized Debtor's proposed board members and a summary of their experience. The Debtor will, at all times, ensure that at least one member of the Reorganized Debtor's Executive Management Committee and one member of its Energy Supply Board work in Montana and are legal residents of Montana.
- (f) Liquidity. The Debtor shall have, on or before the Effective Date, unrestricted cash on hand and/or immediately available credit

(without any closing conditions), in an aggregate amount not less than seventy-five million dollars (\$75,000,000).

- (g) Withdrawal of Stay Motion. Following execution of this Agreement, the Debtor will continue to refrain from prosecuting the Stay Motion in any way. Upon the latter of the MPSC's entry of the Consent Order or the Bankruptcy Court's entry of an Order approving this Agreement, the Debtor will withdraw the Stay Motion.
- (h) Payment of Fees and Expenses. The Debtor agrees to pay to the appropriate entities the reasonable fees and out-of-pocket expenses of the professionals and experts retained by the MPSC, the MCC and the Montana Attorney General (including the fees of the state attorney retained by the Attorney General) incurred in connection with the Chapter 11 Case. In addition, the Debtor agrees to pay the reasonable out-of-pocket expenses incurred by the MPSC commissioners, MPSC staff, MCC and MCC staff in connection with the Chapter 11 Case. The fees and expenses of the various professionals which total approximately \$2,297,768.86 as of May 31, 2004 are set forth on Exhibit B to this Agreement.

Payment by NorthWestern of the fees and expenses incurred through May 31, 2004 and any additional fees and expenses to be incurred through the Effective Date will be paid pursuant to Section 1129(a)(4) of the Bankruptcy Code and payments will be made no later than the Effective Date.

The Debtor's undertaking under this paragraph 4(h) is to pay the specific sums certain set forth on Exhibit B or as may be otherwise agreed to by the Parties, which sums shall not be modified except by the mutual written agreement of the Parties to this Agreement.

- (i) Implementation. If the Debtor amends the Plan for any reason, any Plan amendment shall incorporate this Agreement and the Consent Order by reference unless the Parties agree that such action is not then necessary or required. No later than forty-five (45) days prior to the Effective Date of the Plan, NorthWestern will file with the MPSC a petition for authorization to issue stock, stock certificates, and securities payable at any time more than twelve (12) months after their issue date, as described, and only as described, in the Plan approved by the Bankruptcy Court. Any petition so filed: (1) shall not be opposed by the MCC, consistent with the terms of this Agreement; and (2) will be acted upon by the MPSC within thirty (30) days of the filing of a complete petition pursuant to 69-3-503, M.C.A. In the event that the MPSC either denies the petition for authorization to issue in connection with the Plan stock, stock

certificates and securities payable at any time more than twelve (12) months after their issue date, fails to act on the complete petition within thirty (30) days of filing, or attaches conditions to the approval of such petition, NorthWestern may exercise its asserted right to contest the jurisdiction of the MPSC with respect to securities to be issued in connection with the Plan.

- (j) Order Validity. NorthWestern acknowledges that the terms of this Agreement and the Consent Order are lawful and consents to the MPSC's exercise of the authority, jurisdiction and power to enter into them. Except as specifically provided in paragraphs 4(d)(iii) and 4(i), above, NorthWestern specifically waives the right to challenge any order of the MPSC enforcing the terms of this Agreement or the Consent Order on the grounds that this Agreement or the Consent Order is or was not lawful or beyond the MPSC's jurisdiction.
 - (k) Preparation of Motion to Approve Agreement. The Debtor shall prepare and file all pleadings and other documents with the Bankruptcy Court, or any other court of appropriate jurisdiction, necessary to obtain approval of this Agreement and the settlement it describes, for the purposes of satisfying the condition precedent described in paragraph 8, below. The Debtor also shall take any and all other action reasonably necessary to obtain Bankruptcy Court approval of this Agreement. Upon the request of the Debtor, the MPSC and MCC shall provide such assistance as may reasonably be required to obtain Bankruptcy Court approval.
5. MCC Agreement. The MCC agrees as follows:
- (a) It will not seek MPSC review of NorthWestern's transmission and distribution tariffed rates and charges at any time prior to September 30, 2006.
 - (b) Notwithstanding any practice or provision to the contrary in the MPSC's Rules, the burdens of proof and persuasion in the rate proceeding initiated by NorthWestern's filing set forth in paragraph 4(a) above shall be borne by any Party that is seeking to change rates from those approved by the then currently effective MPSC order.
 - (c) Provided all conditions in this Agreement are met, and provided that no material amendments are made to the Plan without the MCC's approval, MCC will not object to confirmation of the Plan. The MCC reserves its right, however, to object to any Plan amendments. Nothing in this Agreement, the Consent Order, or the Bankruptcy Court order approving this Agreement shall restrict

in any way the right of the MCC to endorse, oppose, or comment upon any other plan of reorganization or any offer to purchase the Debtor or its assets, in whole or in material part.

- (d) The MCC will not oppose the Debtor's efforts to refinance all or some of its secured debt, including its debtor-in-possession financing, so long as the terms (taken as a whole) of such financing are at least comparable to the terms, including interest rates, amortization, fees, covenants, and term, of the indebtedness being refinanced, and provided that the Debtor complies with Mont. Code Ann. §§ 69-3-501 through 507.

6. MPSC Agreements. The MPSC agrees as follows:

- (a) It will not issue an order authorizing changes in NorthWestern's transmission and distribution tariffed rates and charges at any time prior to September 30, 2006. Nothing in this provision shall prevent the MPSC from reviewing and ruling on commodity rates or responding to rate filings made by NorthWestern whenever made.
- (b) Notwithstanding any practice or provision to the contrary in the MPSC's Rules, the burdens of proof and persuasion in the rate proceeding initiated by NorthWestern's filing set forth in paragraph 4(a) above shall be borne by any Party that is seeking to change rates from those approved by the then currently effective MPSC order.
- (c) Provided all conditions in this Agreement are met, and provided that no material amendments are made to the Plan without the MPSC's approval, the MPSC will not object to confirmation of the Plan. The MPSC reserves its right, however, to object to any Plan amendments. Nothing in this Agreement, the Consent Order, or the Bankruptcy Court order approving this Agreement shall restrict in any way the right of the MPSC to endorse, oppose, or comment upon any other plan of reorganization or any offer to purchase the Debtor or its assets, in whole or in material part.
- (d) The MPSC will not oppose the Debtor's efforts to refinance all or some of its secured debt, including its debtor-in-possession financing, so long as the terms of such financing (taken as a whole) are at least comparable to the terms, including interest rates, amortization, fees, covenants, and term of the indebtedness being refinanced, and provided that the Debtor complies with Mont. Code Ann. §§ 69-3-501 through 507.

7. No Effect on Rights of or Against Third parties. Nothing contained in this Agreement is intended to release, limit or otherwise affect any claims that: (a) third parties may have against the Debtor or any of its related entities; or (b) the Debtor may have against third parties other than the MCC or MPSC. Without limiting the generality of the foregoing statement, nothing in this Agreement shall affect the claims of the State of Montana or any of its agencies (except the MPSC and MCC) or subdivisions in the Chapter 11 Case or any other proceeding.
8. Conditions Precedent to Effectiveness of Agreement and Implementation of Its Terms. This Agreement, each term, condition and provision hereof, and the respective rights and obligations of the Parties hereunder are expressly conditioned on: (i) the entry of a final, non-appealable order by the Bankruptcy Court (or, if applicable, the United States District Court for the District of Delaware or the United States Court of Appeals for the Third Circuit) under Bankruptcy Rule 9019 or any other applicable section of the Bankruptcy Code or Bankruptcy Rules approving this Agreement without modification deemed unacceptable by any Party hereto, and authorizing the Debtor to implement each and every term of the settlement described in this Agreement; and (ii) entry of the Consent Order. Entry of the order described in clause (i) of this paragraph 8 is an express condition precedent to the effectiveness of this Agreement. In the event that a final non-appealable order approving the Agreement and the settlement it describes is not entered on or before July 30, 2004, then this Agreement, and each of its terms conditions, and provisions may be voidable at the option of any Party, and if voided no Party shall have any rights or obligations hereunder. The MPSC shall act upon the Debtor's and the MCC's motion for entry of the Consent Order within forty-five (45) days of the Consent Order's filing with the MPSC. The provisions of this Agreement and the undertakings of the Parties (except as otherwise provided) shall be implemented and become effective upon the Effective Date of the Plan.
9. Reservation of Rights. The MPSC and MCC reserve their rights, in the event that the Bankruptcy Court does not enter a final non-appealable order approving this Agreement, to re-assert arguments and positions asserted prior to this Agreement in the Chapter 11 Case, the Financial Investigation, or elsewhere, and NorthWestern shall not assert any procedural objections to the reassertion of those arguments or positions. Furthermore, if the Plan is not confirmed by the Bankruptcy Court for any reason on or before September 30, 2004, then this Agreement is voidable in its entirety at the option of the MPSC and/or the MCC. Nothing in this Agreement shall impair the Debtor's ability to, at any time, petition the MPSC for relief from the structural measures set forth in paragraph 4(b) of this Agreement.

10. Public Documents. Neither this Agreement, nor the Consent Order, nor the Bankruptcy Court's order approving this Agreement shall be subject to any confidentiality agreement or assertion of privilege. These documents shall constitute public records of the Bankruptcy Court and of the MPSC.
11. Binding on Successors and Assigns. This Agreement and each of its provisions, if approved by the Bankruptcy Court and the MPSC and upon its becoming effective pursuant to paragraph 8 of this Agreement, will be binding upon the reorganized Debtor, its affiliates, parents, subsidiaries, officers, directors, shareholders, agents, representatives, attorneys, successors and assigns, specifically including, without limitation, any purchaser or other transferee, directly or indirectly (whether by purchase, merger, consolidation or otherwise), of all or a material portion of the reorganized Debtor's Public Utility assets. This Agreement, if approved by the Bankruptcy Court and the MPSC and upon its becoming effective pursuant to paragraph 8 of this Agreement, will be binding upon the MPSC, the MCC, their successors, officers, directors, agents, representatives, and attorneys. This Agreement, and the attached Consent Order, address discrete components on which future revenue requirements may be based, but it does not, and does not purport to, set rates with respect to the Debtor's Montana Public Utility assets.
12. Representation By and Consultation With Counsel. The Parties each represent and warrant that: (i) each has read and understands the terms of this Agreement and is duly authorized to enter into this Agreement and bind the Party(ies) on whose behalf each is executing this agreement (subject, with respect to the MPSC, to a vote of the MPSC and approval by at least three members of the MPSC present and voting); (ii) each has been represented by counsel with respect to the negotiation and execution of this Agreement and all matters covered by and relating to it; and (iii) each has entered into this Agreement of its own free will and for reasons of its own.
13. Integration and Merger. This Agreement, along with the Consent Order and all other exhibits and attachments to this Agreement and any Order of the Bankruptcy Court approving this Agreement in its entirety, embodies the entire agreement among the Parties. There have been and are no agreements, representations, or warranties, whether express or implied, written or oral, other than those set forth or provided for herein or in the Consent Order. Other than as stated herein or in the Consent Order, each Party to this Agreement warrants that no representation, promise, or inducement has been offered or made to lead such Party to enter into this Agreement and that such Party is competent to execute this Agreement (subject, with respect to the MPSC, to a vote of the MPSC and approval by at least three members of the MPSC present and voting).

14. Amendment of Agreement. The terms of this Agreement may only be amended or modified by a writing that has been executed by each of the Parties.
15. Construction. This Agreement was drafted with the assistance of counsel for all Parties. It shall not be construed in favor of or against any Party.
16. Execution. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute but one and the same instrument. Executed signature pages may be removed from partially executed counterparts and attached to one or more other counterparts to produce fully executed counterparts. This Agreement may be executed by facsimile copy, and each signature shall be and constitute an original signature, again as if all Parties had executed a single original document. This Agreement shall be originally executed as many times as required to provide a fully executed duplicate original of such document to each Party requesting it.
17. Continuing Jurisdiction. The MPSC shall have exclusive jurisdiction, on its own or on the application of the MCC pursuant to Title 69, Mont. Code Ann., to enforce NorthWestern's compliance with the Consent Order. Nothing in this Agreement shall be construed in any way to expand, diminish or limit the MPSC's jurisdiction under state law. The Bankruptcy Court shall have jurisdiction to enforce the terms of this Agreement; provided, however, the MPSC and the MCC do not consent, by entering into this Agreement and/or the Consent Order, to the jurisdiction of the Bankruptcy Court except to the extent necessary to obtain Bankruptcy Court approval of the Agreement and, if necessary, enforcement of the Agreement's terms.
18. No Precedential Effect. Except as may be expressly provided in this Agreement, the Parties intend neither to expand nor to limit the jurisdiction of the MPSC under state law. The Parties do not intend this Agreement to establish any precedent that can be used by any Party to bind any other Party in any subsequent proceeding, or otherwise, except a proceeding or action arising out of or directly related to this Agreement or the Consent Order.
19. Choice of Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of Montana, as enacted on the date hereof and without regard to principles of conflicts of laws.
20. Headings. The Parties agree that the captions and headings in this agreement are inserted for convenience of reference only and are not part of, and shall not affect the interpretation of, this Agreement.

Approved as to form:
Paul, Hastings, Janofsky
& Walker, LLP

NorthWestern Corporation

By: _____
Jesse H. Austin, III
Karol Denniston
Carolyn Chayavdhanangkur
Attorneys for NorthWestern

By: _____
Gary G. Drook
Chief Executive Officer

Approved as to form:
Duncan & Allen

The Montana Consumer Counsel

By: _____
John P. Coyle, Attorneys for the
Montana Consumer Counsel

By: _____
Robert A. Nelson
Montana Consumer Counsel

Approved as to form:
LaFollette Godfrey & Kahn

The Montana Public Service Commission

By: _____
Brady C. Williamson
Katherine Stadler
Attorneys for the MPSC

By: _____
Bob Rowe, Chairman

EXHIBIT B
TO STIPULATION AND SETTLEMENT AGREEMENT

Fees and Expenses of the MPSC, MCC, and Attorney General
to be paid by the Debtor pursuant to paragraph 4(h) of the Stipulation and Settlement Agreement

Party/ Professional	Services through (date)	Fees	Expenses	Total
Montana Public Service Commission				
Blank Rome LLP	5/31/2004	8,474.96	436.14	8,911.10
LaFollette Godfrey & Kahn	10/9/2003 to 12/1/2003	17,500.00	-0-	17,500.00
	12/1/2003 to 6/30/2004	353,176.21	30,000.00 (estimated)	383,176.21
	7/1/2004 to 9/30/2004	\$60,000.00 (estimated)	\$10,000.00 (estimated)	70,000.00 (estimated)
Law Offices of Scott Hempling, P.C.	5/31/2004	14,728.75	53.16	14,781.91
Out-of-Pocket Expenses (Commissioners and staff)	5/31/2004		3,619.34	3,619.34
Montana Consumer Counsel				
Duncan & Allen	5/31/2004	191,824.00	2,842.02	194,666.02
McCarter & English, LLP	5/31/2004	7,931.72	(included in fees)	7,931.72
Out-of-Pocket Expenses (Consumer Counsel & staff)	5/31/2004	0.00	0.00	0.00
J.W. Wilson & Associates	5/31/2004	113,328.00	605.65	113,933.65
Montana Attorney General				
Attorney James Srenar	5/31/2004	27,808.59	326.12	28,134.71
Out-of-Pocket Expenses (staff)	4/30/2004		870.03	870.03
Monzack & Monaco	5/31/2004	23,295.16	included in fees	23,295.16
Morgan Joseph	5/31/2004	200,000.00	4,324.77	204,324.77
Miller Mathis	5/31/2004	350,000.00	6,256.45	356,256.45
	6/1/2004 to 9/30/2004	400,000.00		400,000.00
	completion fee	1,000,000.00	-0-	1,000,000.00
GRAND TOTALS:		2,768,067.39	59,333.68	2,827,401.07